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ABSTRACT

The Australian Family Income Transfer Project (AFIT) is designed to examine the impact of government policies on the economic wellbeing of Australian families. The AFIT Project uses published national statistics as well as data and information collected by the Australian Institute of Family Studies (the project's sponsor) in its own studies and surveys to assess the impact of tax and pension proposals on different family types. This bulletin, the eighth in a series, provides an analysis of the policies developed by the Labor Party for the 1990 election. The analysis focuses on the impact on family incomes of the Labor Party's proposed changes in the rates of personal income tax, the levels and structure of wages, and the impact of new rates of child care relief. Of special interest to educators will be material on "The Education Completion Allowance" (p. 3 and p. 19). The document contains six tables and concludes with a nine-item bibliography. (DB)

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The Australian Family
Income Transfer Project

Taxes, Families and the Labor Party, 1990

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The Australian Family Income Transfer Project (AFIT)

AFIT, a continuing project of the Australian Institute of Family Studies, is designed to examine the impact of government policies on the economic wellbeing of Australian families. The AFIT Project uses published national statistics as well as data and information collected by the Institute in its own studies and surveys to assess the impact of tax and pension proposals on different family types. The AFIT Project has compiled a numerical databank and developed computer programs which assist in the analysis of a variety of policy options.

Publications based on the AFIT Project include:

- *Poverty in Australia: New Data on the Incomes of Australian Families and Individuals*, Australian Institute of Family Studies, Melbourne, July 1984, 12pp.
- 'Throwing out the baby . . . the need to assess unintended outcomes of tax transfer options', by Andrew Burbidge and Frank Maas, in *Key Papers Part 2: XXth International CFR Seminar on Social Change and Family Policies*, held in Melbourne, August 1984, Australian Institute of Family Studies, Melbourne.
- *AFIT Bulletin No.1*, May 1984, compiled by Andrew Burbidge, Australian Institute of Family Studies, Melbourne.
- *AFIT Bulletin No.2*, March 1985, 'Income redistribution through tax and social security: a review of recent trends', compiled by Andrew Burbidge and Helen Brownlee, Australian Institute of Family Studies, Melbourne.
- *AFIT Bulletin No.3*, July 1987, 'Assessment of the impact of tax reforms proposed by the Liberal Party of Australia in June, 1987', compiled by Frank Maas, Helen Brownlee and Anthony King, Australian Institute of Family Studies, Melbourne.
- *AFIT Bulletin No.4*, July 1987, 'Assessment of the impact of changes to the tax transfer system proposed by the Australian Labor Party in June, 1987', compiled by Frank Maas, Helen Brownlee and Anthony King, Australian Institute of Family Studies, Melbourne.
- *AFIT Bulletin No.5*, February 1989, 'Families and Tax in 1989', Australian Institute of Family Studies, Melbourne.
- *AFIT Bulletin No.6*, May 1989, 'Families and the Tax Package', Australian Institute of Family Studies, Melbourne.
- *AFIT Bulletin No.7*, March 1990, 'The Coalition Parties' Family Tax Package', Australian Institute of Family Studies, Melbourne.
- *AFIT Bulletin No.8*, March 1990, 'Taxes, Families and the Labor Party, 1990', Australian Institute of Family Studies, Melbourne.

Contributors

This bulletin was compiled jointly by a team consisting of Helen Brownlee, Andrew Burbidge, Don Edgar, George Gondor, Frank Maas and Peter McDonald. The report was prepared for publication by Allyson Trainor.

Summary

The Institute's Australian Family Income Transfer Project (AFIT) for several years has assessed the impacts on families of tax and social security proposals made by government, political parties and other bodies. In doing this, it has used national statistical databases and specifically developed computer programs. During the 1987 election campaign, AFIT Bulletins 3 and 4 were published which assessed the impacts on families of the proposals then being made by the two major political parties.

In March 1989, the fifth bulletin in the AFIT series provided a comprehensive analysis of the effects on families of accumulated changes in the Australian tax transfer system since between 1976–77 and 1988–89. The sixth bulletin examined the impact on families of the Government's April 1989 Economic Statement. A review of the findings of the fifth and sixth bulletins is given in the Introduction to this report.

The seventh bulletin, *The Coalition Parties' Family Tax Package*, was released recently. It examined the impacts on families of the proposals put forward by the Coalition Parties for the 1990 election. This, the eighth bulletin, now provides an analysis of the policies of the Labor Party for the 1990 election as they affect families.

AFIT bulletins are issued in accordance with the Institute's function as approved by government, to study and evaluate matters which affect the social and economic wellbeing of all Australian families.

The Labor Proposals for Families

The Labor Party proposals for families have four main components:

- a wages and taxes agreement with the unions for a one per cent rise in real wages accompanied by changes to tax scales which, it is claimed, will mean that taxpayers 'will continue to pay less tax than had the tax scale been indexed for inflation since 1983' (the Wage–Tax Package);
- changes to the national child care system which would see the provision of 78 000 new child care places, increases in the levels of fee relief, extension of fee relief to children in commercial child care centres and to child care provided by public and private employers, and extension of eligibility for fee relief to middle-income families;
- increased expenditure on services for families including a $15 million dollar expansion of marriage counselling and family mediation services

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and a new initiative at a cost of $15 million to set up local, Family Resource Centres: and

- the introduction of an Education Completion Allowance paid to middle-income families with children in the final years of high school.

The Institute has estimated the cost of the Wage–Tax Package to be $2.58 billion in a full year.

Assessment of the Components of the Package

Both the 1989 and 1990 Economic Statements have proposed an agreement with the unions about future wages and taxes. At the same time, both agreements contained specific family-related measures: the 1989 agreement included increases to Family Allowances, the Dependent Spouse Rebate and Sole Parent Rebate and their indexation while the 1990 proposals include an expansion of the national child care system. It is of note that attention is given to the specific needs of families in these agreements between government and unions. Without such attention, it is likely that arrangements of this type would lead to a decline in the living standards of families relative to those of single persons.

The Wage–Tax Package

The Wage–Tax Package itself does not provide specific benefits to families compared to single taxpayers. Families would still gain more from the package than single persons because families are more concentrated in the ranges of income that benefit more from the changes. In our analysis, this proved to be the case for couple families with and without children, but was not true for sole parents (see below). The gain from tax cuts is greater for higher than for lower income families.

Expansion of the national child care system

The issue of child care is one of the most important facing families and government at this time because of its importance in meeting the needs of working parents, employers in gaining and retaining skilled labour and, not least, of children in ensuring that their early childhood experiences are enriching, productive and safe.

The Labor proposals address all three of the most important issues related to child care: the supply of places, the quality of care and affordability of childcare.

The new places proposed represent a significant step in the direction of meeting demand for care, especially in the longer term. However, the proposed expansion of commercial child care places may be problematic, particularly, if, following the introduction of new standards of care, the costs of expansion or establishment are an inhibiting factor. The expansion of subsidies to child care provided by public and private employers is significant as this will extend choices available to parents, depending upon the response of employers.

Regarding quality of care, it is important that the proposed move towards a national system of accreditation proceeds immediately. There are great variations in the commercial child care sector and this raises concerns about the quality of care which will receive public funding. Ideally, the system of accreditation should be in place before January 1991 when the extension of the system to commercial child care centres will commence.

The new arrangements mean that child care will be more affordable for low-income families who would gain between $10 and $20 per week extra in government centres and up to $86 per week in commercial centres. The larger gain for those using commercial centres is because they previously had no fee relief from government. A major change is the extension of fee relief to middle-income families. They will gain up to $58 per week in government centres and over $70 in commercial centres. Only when family income reaches $64 000 pa (with one child in care) is fee relief to be fully withdrawn.

Expansion of services for families

Funding for marriage counselling and family mediation has been almost trebled. This accords with the findings of the Institute's evaluation of marriage counselling in Australia which showed that expenditure of around $7 million saved the nation about $47 million in the potential costs of marriage breakdown.

Again taking the preventative approach to family problems, the initiative to set up Family Resources Centres is an important initiative at Commonwealth level. For several years, the Institute has pointed to research evidence showing the benefits of the establishment of broad-based, non-stigmatising resource centres for families.

The Education Completion Allowance

Austudy for several years has assisted low-income families to maintain their children in the final years of high school. The Education Completion Allowance extends this type of support to middle-income families. Institute research on the costs of children has shown that their costs are very high at ages 15–17 years and that the cost of education is the principal contributing factor to increased costs. The new allowance provides recognition of this fact.

Gains for Families from the Labor Proposals

Families would have the following gains from the Labor Party's tax and child care proposals once the new measures are in place. These gains do not include the proposed changes in wage rates. Child care benefits are based on the assumption that the family would qualify for fee relief of up to $100 per week.

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Weekly gains for families with one child from Labor's tax and child care proposals

Family income per week	*Child not in subsidised care (tax gains only) $pw*	*Child in Government centre (additional to existing subsidy) $pw*	*Child in commercial centre (no existing subsidy) $pw*
Sole parent families and one-income couples			
$400	6.11	31.01	103.11
$500	7.11	39.01	94.11
$700	10.64	56.54	77.64
$900	12.64	59.64	59.64
$1200	13.23	30.23	30.23
$1600	13.23	13.23	13.23
Two-income families with one child			
$500	1.21	33.11	88.21
$700	7.52	53.42	74.52
$900	10.44	57.44	57.44
$1200	17.75	34.75	34.75
$1600	21.74	21.74	21.74

Gains from the Wage–Tax Package

The following sub-sections describe the gains to families specifically from the Wage–Tax Package and exclude gains which may flow from changes in fee relief for child care or the Education Completion Allowance. Because changes in wages and taxes prior to June 1991 are included in the calculations, the results are not comparable to those provided in respect of the Coalition Family Tax Package in AFIT Bulletin No.7.

Gains according to family type

Overall, the Wage–Tax Package would have the following outcomes:

- It would provide 40.7 per cent of its benefits to the 25.8 per cent of income units consisting of couples with dependent children.
- Couples without dependent children (24.0 per cent of all income units) would receive 30.5 per cent of the benefits.
- Sole parents, who constitute 4.0 per cent of all income units, would receive only 1.4 per cent of the total benefits.
- On average, couples with children would receive an additional $767 pa (June 1991 dollars); couples without children, an average of $617 pa; sole parents, an average of $168 pa; and single persons, $288 pa.

Couples would benefit more than sole parents or single persons because they tend to have higher incomes and because, if both are working, they receive two real wage rises and two tax cuts.

Gains to one- and two-income families

Gains are greater from the Wage–Tax Package for two-income families than for one-income families. On average, among couple families with children, two-income families would receive an additional $942 pa (June 1991 dollars) compared to $548 pa for one-income families. If eligible for child care fee relief as outlined earlier, the incomes of two-income families would be further improved.

Impact on families at different income levels

Gains from the Wage–Tax Package are weighted towards families on higher incomes. Dollar gains increase with income, levelling off when taxable income reaches $50 000. Little benefit from this current package (as compared with previous changes to income security provisions) would be provided to families on low incomes:

- Among families with dependent children, only one per cent of the benefits of the package would go to the 18.2 per cent of families with incomes below half average weekly earnings.
- At the other end of the income range, the 13 per cent of families with incomes in excess of twice AWE ($60 800 in June 1991) would receive 30.3 per cent of the benefits.
- The 51.4 per cent of families with incomes between half AWE and 1.5 AWE would receive 44.7 per cent of the benefits.
- The average gain to families with children ranges down from $3 609 pa for those with incomes above four AWE to $708 pa for those with incomes between AWE and 1.5 AWE, $448 pa for those between half AWE and AWE and $36 pa for families below half AWE.

These results clearly indicate that the greatest cash benefits from the Wage–Tax Package go to families and single persons on higher incomes. However, it should be noted that elements of the proposals are progressive in nature viz. the $12 flat wage increase and higher reductions in tax rates at lower levels of income. Most of the gain to high income families flows from the 7 per cent wage increase.

Further, families above twice AWE would not receive fee relief if they had a child in care nor would they receive the Education Completion Allowance. As indicated above, these would substantially increase the gains to middle-income families who were eligible for this assistance.

Changes in Average Tax Rates Under Labor

The Treasurer has claimed that the new tax structure in the Wages-Tax Package will ensure that 'taxpayers will continue to pay less tax than had the tax scale been indexed for inflation since 1983'. One way of examining this claim is to calculate average tax rates (including family-related transfers such as Family Allowances and Family Allowance Supplement) for families and individuals at multiples of average weekly earnings at three points in time, 1983–84, 1989–90 and June 1991 (see Table 4).

The results of these comparisons show that, indeed, 26 of 28 income and family type categories examined had lower average tax rates in 1989–90 than in 1983–84. The comparison also showed that the Wage–Tax Package tends to keep average tax rates roughly constant to June 1991.

Declines in average tax rates were larger for high income people and for families with children on low incomes. Single people on low incomes and middle income families had smaller changes in their rates of tax.

Changes in Real Disposable Incomes Under Labor

Another way of examining the impacts of changes in taxation and real wages over time is to calculate trends in real disposable incomes (see Table 5). Declines in real disposable income were experienced by most categories of income units in Australia between 1983–84 and 1989–90. The exceptions were wealthy, one-income families who had substantial rises in income and low income families with children who had small rises.

The declines in real disposable incomes over the 1983–84 to 1989–90 period were not as large, however, as the declines in real wages in the same period. Thus changes in tax arrangements, to a vaying extent, offset the declines in real wages necessitated by the wages blowout in the late 1970s and early 1980s.

The rises in real disposable incomes which will ensue from the policies proposed by the Labor Party for the period, 1989–90 to June 1991, will be larger for higher income groups than for lower income groups. However, middle income families would benefit more from the Education Completion Allowance and the expansion of eligibilty for child care fee relief which have not been included in the calculations of real disposable income.

In the 1983–83 to 1989–90 period, household incomes would have risen sharply for the 14 per cent of couples with children who became two-earner rather than one-earner households.

Introduction

The Australian Institute of Family Studies is an independent, statutory body with the following functions:

- to study and evaluate matters which affect the social and economic wellbeing of all Australian families,
- to inform government and other bodies concerned with family wellbeing and the public about issues relating to AIFS findings,
- to promote the development of improved methods of family support, including measures which prevent family disruption and promote marital and family stability, and
- to publish and otherwise disseminate the findings of Institute and other family research.

As one means of fulfilling these functions, the Institute set up the Australian Family Income Transfer Project (AFIT) which, for several years, has used national statistical databases and specially developed computer programs to assess the impacts on families of tax and social security proposals by governments, political parties and other bodies.

During the 1987 election campaign, for example, AFIT Bulletins 3 and 4 assessed the impacts on families of the proposals then being made by the two major political parties.

Policies for families are prominent in the party platforms for the 1990 federal election and in keeping with the functions of the Institute, the AFIT databases again have been used to provide analyses of the impacts on Australian families of the policies proposed by the major parties. Bulletin No.7 in the AFIT series, recently released, dealt with the policies being proposed in the Coalition Parties' Family Tax Package.

This, the eighth bulletin in the series, addresses policies proposed by the Australian Labor Party for the 1990 election. Given the almost simultaneous release of these two studies, the background to this present bulletin is the same as that provided in the seventh bulletin. Consequently, so that each bulletin is able to stand in its own right, much of the discussion which follows in this Introduction repeats material already covered in AFIT Bulletin No.7.

The Arguments Made in AFIT Bulletin No.5

In March 1989, the Institute published the fifth bulletin in the AFIT series, *Families and Tax in 1989*. This major study provided a comprehensive

analysis of the effects on the disposable incomes of families and individuals of accumulated changes in the Australian tax transfer system since 1976. The central finding of the study was that the incomes of middle-income families had been eroded substantially through the failure of successive governments to maintain the real values of the family-related components of the tax transfer system. In comparison, high income families and single people were much better off than they had been in 1976 because of cuts in the top marginal rate of tax. The situation of families on low incomes was also better because of the introduction in 1982 of Family Income Supplement (FIS) by the previous Coalition government and its improvement in the form of Family Allowance Supplement (FAS) by the present government in 1987.

This situation having been established, *Families and Tax in 1989* then addressed the questions as to how the tax transfer system could be restructured to make good the observed loss to middle-income families while setting in place a system which would prevent subsequent erosion of the recognition given to family responsibilities in the tax transfer system.

At that time and to the present time, the family-related components of the tax system consisted of Family Allowances, Family Allowance Supplement, the Dependent Spouse Rebate, the Sole Parent Rebate and the Pensioner and Beneficiary Rebates. These measures were assessed on the criteria of equity (fairness), efficiency (whether the measure enables people to engage in economic activity in the way they would prefer, especially that the measure does not provide disincentives to work) and simplicity (whether the measure is easily understood and its administrative cost is low).

Equity has two dimensions, both of which need to be addressed by the tax transfer system. The first dimension (*horizontal equity*) refers to consideration being given in the transfer system to the reduced capacity that taxpayers have to pay tax when they have dependants to support. The argument was made in AFIT Bulletin No.5 that the responsibility for a taxpayer to support dependent children should be recognised for all families irrespective of their income level. It was argued that this aim would be achieved best through universal Family Allowances relating to dependent children. The existing system of Family Allowances could be recommended also on the grounds of efficiency and simplicity. Consequently, the bulletin argued that the level of Family Allowances should be increased and that the income-test on Family Allowances, introduced by the current government in November 1987, should be abolished.

The other dimension of equity (*vertical equity*) refers to consideration being given to providing additional concessions to those on low incomes in order that they can meet their needs and to the progressivity of the tax system. The principal mechanism in the transfer system designed to deal with vertical equity for families was then and still remains the Family Allowance Supplement. The analysis in AFIT Bulletin No.5 found that FAS served well its purpose of improving the income circumstances of families who had very low incomes (those on pensions and benefits and the 'working poor'). However, it was argued that, in terms of vertical equity, families with incomes above the level at which FAS cuts out were in need of some further assistance.

Specifically, it was argued that the costs of children or a dependent spouse were so great that fairness could only be achieved if a vertical equity

measure were to apply to families with incomes up to about $44 000 (for two-child families). At about this level, the standard of living of a two-child family would have been roughly equivalent to that of a single person on average weekly earnings.

The only measures in the tax transfer system which, then and now, might be said to deal with fairness to families with incomes above the FAS cut off point are the Dependent Spouse Rebate (DSR) and the Sole Parent Rebate (SPR). However, it was argued in AFIT Bulletin No.5 that these were very poor mechanisms to achieve the aim of adjusting the living standards of middle income families.

First, their real value had been greatly eroded since their original introduction and, in absolute terms, the assistance they provided was very low. Second, they took no account of the number of children in the family. Third, they were available to families on very high incomes whose standards of living were high without compensating tax measures. Fourth, the DSR was so structured that low-income families in which both husband and wife worked received no benefit unless the second income was very low. In terms of efficiency, the DSR was also shown to provide major work disincentives for second earners. It was argued that while parents have no choice in the dependency of their children, the dependency of a spouse is not of the same order nowadays when a majority of couples are two-income couples. Nevertheless, it was recognised that spouses may well be dependent when one is unable to get a job or when there are very young children present and, if these families have low or middle incomes as a consequence, they should receive additional assistance through the tax transfer system.

The argument was then made in Bulletin No.5 that fairness, efficiency and simplicity would be improved greatly if the DSR, the SPR and the pensioner and beneficiary rebates were replaced by a single rebate which would be known simply as the Family Rebate. This new rebate would be set at a much higher level than the existing rebates but would be income-tested with a very low rate of withdrawal so as to keep effective marginal tax rates low. The low withdrawal rate also meant that the rebate would still be received at least in part by two-child families with incomes up to $44 000 (1989) but it would not be available to families on very high incomes. The amount to be received would be based on family income level and number of children rather than upon family type, that is, the amount received would be the same for one-income couples, two-income couples and sole parents if they had the same family income and the same number of children.

The April 1989 Economic Statement

The fifth AFIT bulletin, *Families and Tax in 1989*, was released in advance of the Government's Economic Statement of April 1989, which, along with changes in the tax scales, announced increases in the levels of Family Allowances, the future indexation of Family Allowances, and changes in the levels of the Dependent Spouse Rebate and the Sole Parent Rebate. The sixth AFIT bulletin, *Families and the Tax Package*, showed that these changes virtually restored the taxation position of middle-income families to 1976 levels, reversing the decline that had been pointed out in the fifth AFIT bulletin. However, the increased levels of Family Allowances were still between 7 to 33 per cent (depending on the number of children) below their

real values in 1976 when Family Allowances were introduced. The DSR and the SPR, although increased, remained about 20 per cent below their real values in 1983 and between 5 and 30 per cent below their real values in 1976.

The sixth bulletin also showed that high-income families, although their tax position had improved considerably prior to the Economic Statement, benefitted more in dollar terms from the new measures than middle-income families.

Australian Labor Party Proposals

The impact of many of the new policy proposals on family wellbeing is difficult to assess as information is often not available on the characteristics of families using services, or on the effectiveness of services in meeting family needs.

The analysis in this Bulletin focusses on the impact on family incomes of the proposed changes in the rates of personal income tax, the levels and structure of wages and the impact of new rates of child care fee relief. The Bulletin also provides comment on the issues relating to the new proposals for child care and marriage counselling. The Institute is also planning a major study on service provision and co-ordination (Families, Work and Living Standards) which, in due course, will assist assessment of a number of the other service initiatives proposed in the package.

Much of the discussion in AFIT Bulletin No.7, *The Coalition Parties' Family Tax Package*, related to assessment of new family taxation *mechanisms* being proposed by the Coalition, specifically a new Child Tax Rebate and a new Child Care Rebate. Because these measures would represent a significant change in the structure of the Australian tax-transfer system, it was necessary to evaluate them in terms of conventional principles relating to taxation systems. The study argued that, for the same cost as the Coalition package, simpler, more efficient and equitable outcomes could have been achieved through a tax package structured along the lines of the package suggested by the Institute in March 1989 in AFIT Bulletin No.5 (see discussion above). In addition, the Institute argued that direct expenditure on the improvement of the child care system was a desirable alternative to tax rebates for child care.

The Labor Party is not proposing that the mechanisms of the tax system be changed. Instead, it proposes reductions in the rates of tax. Thus, the analysis in this Bulletin does not deal at the same length with principles of taxation systems. These are addressed intensively in Bulletins 5 and 7. However, an assessment is made in Part Two of this bulletin of new policies related to families which form part of the Labor Party's platform. These include child care initiatives, increased funding for marriage counselling, funding for family resource centres and the increased allowance for students completing secondary school.

With this background, the Bulletin goes on in Part Three to describe the outcomes for different families of Labor's tax and wage proposals and to assess the tax situations of Australian families after the implementation of Labor's proposed changes in comparison with the present situation (1989–90) and the situation in 1983–84 when Labor came to power.

Part One: Families and the Labor Party's Proposals

This part describes the major policy changes affecting families which have been proposed by the Labor Party prior to the 1990 election.

Changes to Tax Rates

In a statement released in February 1990 (Keating and Walsh 1990), the Government announced that, if returned to office in the March 1990 elections, it will introduce a new scale of personal income tax. The major changes in the new scale, which would take effect from 1 January 1991, are increases in the tax threshold and reductions in the marginal tax rates of middle income earners.

The proposed tax scale is as follows:

Taxable income	Marginal rate
0–5400	0
5401–20 700	21
20 701–36 000	38
36 001–50 000	46
50 001 and over	47

Although there was no change in policy proposed for the Dependent Spouse Rebate (DSR), Sole Parent Rebate (SPR), or family allowances, these tax-related provisions are indexed and will increase in 1990–91 in line with the Consumer Price Index (CPI).

The Economic Statement also contained a number of savings measures which would have direct or indirect impacts on selected families. The impact of the proposed changes on families, however, is often hard to assess. Savings proposals include reductions in defence outlays, increased sales tax on luxury cars and (accounting for more than half the total savings) changes to Social Security provisions. Measures which could have a substantial impact on family incomes include changes which increase compliance with eligibility requirements for Unemployment Benefit (now to be referred to as the Job Search Allowance or JSA) and which assist people to return to work, a reduction in the rate of JSA for single people aged 18–20 years living at home and deferment of JSA where applicants have liquid assets of more than $5000.

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An Increase in Real Wages

The Treasurer announced an agreement with the ACTU whereby both parties would jointly seek changes in the structure and average level of wages which would ensure that wage and salary earners with full-time earnings up to Average Weekly Earnings (AWE) would receive an increase in real wages in the year ending June 1991 of at least one per cent. The payments sought include a flat rate payment of $12 per week, which would represent a percentage increase for lower paid workers greater than the expected overall increase of 7 per cent.

Because the size of wage increases and tax cuts are both parts of the Government/ACTU negotiations on wage earner incomes, the proposed wage increases have been included as part of the policy change package. AWE is estimated to rise by June 1991 to $582.85 per week, or $10.35 more per week than if AWE had risen in line with the CPI.

Child Care Places and Fee Relief

Increased assistance for child care was promised by the Prime Minister, Mr Hawke, in his policy speech on 8 March 1990 (Hawke 1990). In its National Child Care Strategy, the Government had undertaken to provide 30 000 child care places by 1992–93. In the policy speech, the Prime Minister announced that the Labor Party proposes to further increase funding in order to provide 78 000 extra places by 1995–96, bringing the overall number of places to 255 300.

It is intended that the additional 78 000 places would comprise:

10 000 new centre-based places in the community sector;

10 000 family day care places;

30 000 outside school hours care places;

28 000 new places in commercial and employer provided child care centres.

Approximately 28 000 new places are expected to be provided by commercial operators and employers because of a change in policy which would permit families in these centres to receive assistance for fees on the same basis as families in non-profit centres. No funds would be provided to meet capital costs for these 28 000 places. Fee relief would be available for approved commercial or employer-provided day care from January 1991.

Eligibility for, and levels of fee relief have also been modified to increase the maximum amounts available and to ease the income test on family incomes. Fee relief for Family Day Care will rise from $68 (for 40 hours of care) to a maximum of $100 per week (for 50 hours of care). Fee relief in community centres will also be raised to a maximum of $100 per week from 1 October 1991.

The family income level at which fee relief begins to be withdrawn has been raised and effectively indexed, and the rate of withdrawal reduced to 10c in the dollar for one child and 20c for two or more children in care.

There are also additional measures which extend fee relief to users of outside school hours care, improve assistance to users of occasional care, provide extra funds to disadvantaged groups and give special assistance to playgroups.

Family Services

The Prime Minister announced that the Government would provide $128 million over three years to improve services for families, particularly those living in the outer suburbs. This would include $15 million to support marriage counselling services and a further $15 million to establish 15 Family Resource Centres in the outer metropolitan areas. In co-operation with the States and community organisations these centres would improve service co-ordination and assist planning of service provision. Public transport in outer city suburbs would also receive an extra $85 million over three years.

Education Initiatives

The Labor Party has proposed a range of measures aimed at improving particular aspects of education. The main initiative, costing $34.3 million, is the Education Completion Allowance. This allowance will replace the Family Allowance for families where students are in years 11–12, or are aged 15–17 and in full-time tertiary education or are aged 18–24 and in senior secondary education. The payment will be $300 twice a year paid in February and July in order to offset costs of educational materials incurred at those times. Only families not in receipt of Austudy and who meet the requirements of the Family Allowance income test will be eligible. It is estimated that the allowance will assist an average of 236 000 students each year.

Other proposals in the area of education are:

- $20 million to government schools and $10 million to non-government schools to assist with the increased demands of higher retention;
- $8 million in extra funding under the Disadvantaged Schools Program and $5 million for a new program to improve literacy in these schools;
- $4.2 million to improve provision for students with disabilities;
- $3 million to improve opportunities for girls in schools; and
- $1.5 million for an Australian Students Prize.

Part Two: Assessment of the Components of the Labor Party's Proposals

Tax Cuts vs Family-related Transfers

The Labor Party tax proposals apply to all taxpayers, regardless of whether they have family responsibilities or not. As such, the changes to the tax scales are not designed particularly to assist families in the way changes to the systems of Family Allowance and/or the family-related rebates, the Dependent Spouse Rebate and the Sole Parent Rebate, would. AFIT Bulletin No.6 reported on the effects of the Government's Economic Statement of April 1989. The Statement contained an increase in the level of Family Allowances, a change in their structure and the introduction of indexation for the first time.

The outcome of these changes was to restore substantially the real value of Family Allowances, particularly when compared with their value as at 1983–84, the beginning of the current government's first term. However, when compared with their value as at 1976–77, Family Allowance for the first child was still 7 per cent less, 24 per cent less for the second child and 33 per cent less for the third child. Consequently, groups concerned about the additional needs of families could reasonably have expected some attention to be paid to this issue in the Labor Party's proposals.

This is not to say that across the board tax cuts will not assist families. Quite obviously, a great many families benefit from tax cuts, and as discussed in Part Three, couple families with dependent children gain more from the Labor package than other household types as a result of their prominence in higher income ranges. Indeed, in this way, many higher income families are compensated for their loss of family-related assistance, mainly the Family Allowance, by general tax cuts. Additionally, many families will receive assistance through government expenditure on specific services such as improvements to education, child care, and public transport.

Child Care

As stated in AFIT Bulletin No.7, the issue of child care is one of the most important facing families and government at this time because of its importance in meeting the needs of parents desiring work opportunities; of employers in gaining and retaining skilled labour; and, not least, of children

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in ensuring that their early childhood experiences are enriching, productive and safe. It is important then, that the Labor Party has included a major initiative relating to child care in its election package.

In AFIT Bulletin No.7, the Institute identified the continuing issues of lack of supply of places and the quality care as the major issues. Concern was also expressed regarding the costs to users and to government and regarding the needs of disadvantaged groups in getting access to child care services. The conclusion was drawn that effective assistance to disadvantaged groups may involve the continuation and extension of the fee relief system and, more importantly, the expansion of available places.

By international standards, Australia has been slow to set in place a comprehensive child care strategy, and we tend to trail behind countries which, following extensive enquiry, have embarked upon long-term plans for the provision of early childhood services. For example, in 1988, the Government of New Zealand published a comprehensive plan of its intentions for early childhood care and education (Lange 1988). The New Zealand policy now in place provides for abolition of tax deductibility for early childhood care and education expenses and instead, provides for expenditure on the provision of child care places, capital grants and loans and fee subsidies for low-income families. Sweden also has a fifteen-year plan to provide quality child care for its citizens (Broberg 1988). In the light of developments in countries such as these, which are international competitors of Australian industry, there is an urgent need for a comprehensive review of early childhood services in Australia which works towards the goal of a long-term strategy for the provision of better services.

There are very strong arguments in favour of the expansion of places as opposed to other policy approaches. First, it is clear that there are severe shortages of supply already. Two recent analyses estimated an unmet demand of 125 000 places for Australia (Lyons 1989) and 6 050 places, catering for 8 780 children, for Victoria (Hone and Baker 1989). It has also been estimated that there will be a need for places for under school age children of a further 24 000 families in the mid 1990s (Maas 1989).

AFIT Bulletin No.7 addressed the issue of whether child care should only be seen as child-minding or be regarded as early childhood education. If we are to consider child care in the context of early childhood education, the conclusion was drawn that, like all other levels of education, the funding emphasis should be on provision of places.

The proposals announced by the Labor Party amount to a comprehensive plan to expand the supply of child care places, improve access and reduce costs for low and middle income families and, while including commercial centres under government funding for the first time, paying attention to the critical issue of quality of care. Additionally, other issues have been addressed such as the extension of fee relief to users of outside school hours care, improvement of fee relief for users of occasional care, extra funds for disadvantaged groups, and assistance for playgroups.

Increasing the supply of places

As mentioned above, the supply of extra places could be regarded as the major issue facing child care. Labor's commitment to an extra 50 000 definite places in government funded programs, and for encouraging an

estimated 28 000 further places in employer-provided schemes and commercial centres, represents a significant step in the direction of meeting demand for care, especially in the longer term.

Meeting existing unmet demand is a dilemma for any government, as places cannot be produced overnight. Yet the success of this initiative will be tested by the extent to which the great backlog of unmet need can be cleared quickly. The emphasis on outside school hours care reflects the shift of the main focus of new demand as the numbers of working parents with school-age children grows. It could be that even with this massive increase in supply, there will still be unmet needs, on current estimates.

The extent to which the target of 28 000 places in employer-provided schemes and commercial centres will be met depends on a number of factors. Under current arrangements, employers are offered 1000 places whereby only about a third of the costs, on average, are met by them. After initial hesitancy, more employers are examining the costs and benefits of this approach. If the provision of child care by employers in overseas countries is to be taken as an example, a target of 14 000 places over 5 years may be realistic, especially as government employers will now be included.

Expansion of commercial places may be more problematic. In 1988, there were only 13 000 places available for work-related purposes in commercial centres (ABS 1989). The target of 14 000 places means the industry must more than double in size in 5 years. The extent to which there are incentives for this to happen will depend upon the impact of any changes in standards flowing from the proposed system of accreditation, and upon response in locations where high numbers of potential subsidised users are to be found.

The issue of quality of care is crucial and therefore, so will be the process of determining standards of accreditation. If high standards are required, the costs of expansion or establishment, especially in locations of high disadvantage, may be an inhibiting factor. At present 31 per cent of commercial centres in Australia offer no pre-school or kindergarten component in their program (69 per cent in Western Australia and 43 per cent in Victoria), only 39 per cent of staff have relevant academic qualifications, and 23 per cent of staff are aged under 19 years (33 per cent in Victoria) (ABS 1989).

Easing costs to users

Labor has chosen to extend the system of fee relief to more parents and to increase its level, as the most effective and fairest way to assist families with the cost of care. Where they are able to obtain access to a public child care scheme, low-income families already are eligible for such assistance, however, if using commercial care, they currently receive no fee relief. Because of the increases in relief, low income users will gain between $10 and $20 per week extra in government centres (assuming weekly fees for one child to be $100 per week), up to $86 per week in commercial centres, while middle income earners will gain up to $58 per week in government centres and over $70 in commercial centres. Where centres charge more than $100 per week, parents may be eligible for a maximum of $100 fee relief for a 50 hour week. Only when family income reaches $64 000 pa (with one child in care) is fee relief to be fully withdrawn.

In terms of fairness (vertical equity) this way of assisting families accords with basic principles and greatly improves the situation of eligible families using commercial centres.

The improvement in affordability of centre-based care is indicated in the following table:

Maximum fee relief for centre-based care

Family income pw	*Current* $pw	*New* $pw	*Gains* $pw
$400	72.10	97.00	24.90
$500	55.10	87.00	31.90
$700	21.10	67.00	45.90
$900	0	47.00	47.00
$1200	0	17.00	17.00
$1600	0	0	0

Quality of care

As mentioned earlier, and in AFIT Bulletin No.7, the quality of care is a crucial issue. Child care may be regarded by some as child minding only, but there is a great commitment within sectors of the community, especially those concerned with early childhood education, to ensuring that it is much more than just that. While there are great variations in the commercial market, it is generally the case that parents regard government supervised care as of higher quality overall. Consequently, extension of fee relief to the users of commercial centres naturally raises concerns regarding the quality of provision to qualify for public funds. This is no doubt the reason that the Labor Party proposes to call upon representatives of all interested parties in the child care sector to develop an agreed set of standards for accreditation.

The outcomes of this process will be crucial. The task of determining standards for accreditation will need to be achieved quickly because many commercial centres will receive interim accreditation at the beginning of 1991. As many of these centres will require upgrading, ultimately, agreed standards will be important for the wellbeing of the children being cared for in this interim period. It will be difficult to de-register centres once they have established a presence in their respective markets. Finally, it will be important to ensure that all States adhere to a uniform set of standards.

The inclusion of commercial centres

As mentioned earlier, there are many concerns regarding the extension of fee relief to commercial centres. There are two main reasons for the move. First, it is inequitable that low-income families unable to gain access to government centres are denied fee relief if they use commercial care. Second, the expansion of places is cheaper to government if private capital is drawn into the provision of care.

On the other hand, there are several worries about the shift. Quality of care, access in locations of disadvantage and the capacity of the sector to respond have been mentioned earlier. Other issues are:

- the extent to which such centres will respond to the need for care for children under 2 and 3 years old. This is an area of significant unmet need

and commercial centres often do not offer such care as it is more expensive to provide. There may be a need to consider a higher level of fee relief in relation to children under two years of age;
- allocation of government funds represents a diversion of scarce resources at a time when further expansion of the public sector is crucial;
- in the longer term, there are likely to be further demands from the private sector for more government assistance, for capital and per capita grants, as with the private school sector today. There could then be the potential for yet another dual system with competition for scarce resources between an impoverished public sector and an affluent private sector.

Education Support

The measures described in Part One regarding education are carefully targeted to address emerging problem areas resulting from the greatly increased numbers of students staying until the end of secondary level. The proposal that will have the most extensive impact will be the new Education Completion Allowance. Low-income families already have access to substantial assistance for the last two years of school via the system of Austudy. Middle-income families may receive Family Allowance for their children, while higher income families are income-tested out of any help with meeting the costs of their dependent children. This new measure will increase the level of assistance for middle-income families only, by providing them with an extra $115 each year. Such assistance is in accord with findings of the Institute that the costs of keeping dependent children are highest in these years and would deliver payments at times of peak expense throughout the educational year.

Other initiatives in the education portfolio identify quite specific areas of continuing need and will add much needed assistance to them. They include:
- extension of the Disadvantaged Schools Program to include a special focus on literacy, and a further modest expansion of the scheme;
- an increase in the per capita grant for disabled students;
- funds to promote equal opportunity for girls in schools;
- extra funds to assist schools respond to the demands of increased retention.

Marriage Counselling

The extension of funding for approved marriage counselling services is in line with the findings of the Institute's evaluation study of those services. The report of this study was made available to the government in early February, 1990. It showed that for the majority of clients, marriage counselling is effective and that, on a conservative cost-benefit analysis, marriage counselling 'saves' the nation about $47 million in the potential cost of marriage breakdown, such as Family Court costs, legal aid and supporting parents' pensions.

However, in that report, warnings were sounded which may need to be taken into consideration if these extra funds become available. As the study showed, marriage counselling comes rather late in the process of marriage breakdown. Men in particular seem to be less prepared for and less able to respond to the counselling process than women. Men more than women

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come to counselling with the desire to preserve the marriage and if the marriage does not survive or if reconciliation does not occur, they are much less satisfied with the counselling received.

In that light, the new emphasis on mediation as an earlier and different form of marriage support is appropriate, as is the decision that priority will be given to unserviced and underserviced rural and metropolitan areas. Access to marriage support services is very uneven. The additional $5 million per year to be allocated will only go part way to ensuring universal local access to such services.

Marriage counselling, no matter how valuable, is only one form of marriage and family support and it comes well along the path to 'breakdown'. Prevention is better than 'cure' or 'crisis intervention'. The costs of handling a problem when it has become severe are much higher than early intervention and support.

Family Resource Centres

The new initiative of $15 million over three years to establish Family Resource Centres is an example of a more preventative approach to family support. The Institute has argued that such family centres should be set up and has consulted with the Western Australian government in recent years about its establishment of Family Centres there. Other states have funded activities that are broadly equivalent and there is an excellent model in the Family Resource Centre funded by the Department for Community Welfare of Tasmania in Launceston.

Rather than $15 million for 15 centres, a larger number of centres at a lower per unit cost might be developed, utilising existing facilities such as primary schools, infant health centres, or shops. Existing models such as the Western Australian Family Centres and the Launceston Family Resource Centre are cost-effective and localised. Staffing costs might also be reduced by rotating service workers from other local services on a half-day basis (and subsidising their salaries) so that better networking between services is developed.

Research shows quite clearly that areas which have well linked support services and a sense of good neighbouring show much lower levels of child abuse, domestic violence, family breakdown, youth delinquency and homelessness than areas where such linked support services are lacking (see, for example, Garbarino and Sherman 1980). This is the key path to prevention and genuine support for family life. This initial funding will enable testing of the efficacy of this new approach, with a view to much more extensive funding of preventive as opposed to crisis intervention services in the future.

It should also be noted that the Labor Party's $128 million family services package ought to be treated as an integrated package, not as a set of discrete measures. That is, improved outer urban transport should be planned to link up the various family support agencies, schools, medical services and the new Family Resource Centres. In the Institute's view, all these services should be available to all families, not restricted to those with the most severe problems.

Part Three: The Impact of Labor's Policy Proposals on Families

In this part, computer modelling is used to analyse the distribution of benefits from Labor's wage and tax proposals (the Wage–Tax Package) across families of different types and different income levels. The analysis does not include the benefits to eligible families of Labor's child care initiatives or the introduction of the school completion allowance for older children, because of the absence of data which link child care, school participation and family incomes. However, it has been possible to show (Table 6) the impact of changes in child care fee relief on the disposable incomes of selected family types.

Methodology

The Wages–Tax Package promises changes which will be in place by June 1991. This means that to evaluate the impact of the package on families, a database relating to June 1991 is required. It was necessary, therefore, to update the Institute's existing database of Australian families and individuals for the financial year, 1989–90 (see description in AFIT Bulletin No.7), to June 1991. The following procedures were used.

Total numbers were adjusted upwards by 2.4 per cent to account for population growth. This is consistent with present population trends. No allowance was made for changes in labour force participation rates or changes in family composition.

Incomes, both earned and unearned, were updated using the Treasurer's estimates of growth in wages to June 1991. This resulted in an estimated AWE in the June quarter of 1991 of $582.80. Incomes from government cash transfers were updated using the Treasurer's estimate of the growth in the Consumer Price Index to June 1991. This database will be referred to as the 'Labor Database'.

A second, 'Comparative Database' was created using the same assumptions as the Labor Database with the exception that incomes were increased by the projected CPI rather than by the projected increase in wages. Thus, the Labor database is constructed on the assumption of a one per cent rise in real wages, while the Comparative database assumes no rise in real wages.

The $12 flat rate payment (to be paid to wage and salary earners by June 1991) was included in the incomes of part-time and part-year workers after converting it to an hourly equivalent and assuming that the starting dates of

part-year workers were spread randomly throughout the calendar year. The aim was to provide these workers with the $12 increase in proportion to their hours worked and the probability that part-year employees were in employment after the $12 flat rate came into effect (assumed to be June 1991). Full-year, full-time workers were assumed to gain the full $12.

Tables which follow in this part show gains for various family types from the Wage–Tax Package. These gains are calculated by comparing the disposable incomes resulting from the Labor Database in combination with the Labor-proposed tax scales with the Comparative Database in combination with existing tax scales. That is, it is assumed that, in the absence of the new accord with the trade unions, the tax scale would have remained unchanged and real wages would have risen in line with prices (no changes in taxes or real wages).

All calculations are based on the projected situations as at June 1991. Annual figures are derived by 'annualising' a week in June 1991.

Using this methodology, the Institute has estimated the cost of the tax component of the Wage–Tax Package to be $2.58 billion in a full year.

In AFIT Bulletin No.7, the impact of the Coalition Family Tax Package was compared with outcomes from an illustrative, Alternative Package. This Alternative was specific to the design of the Coalition policies; it is not an appropriate alternative to be used in this bulletin. Nevertheless, it should be pointed out that the illustrative alternative used in AFIT Bulletin No.7 would have provided much higher benefits to both low and middle income families than either the Coalition or Labor Packages.

The Distribution of Gains from the Labor Party's Wage–Tax Package

Gains by income unit type

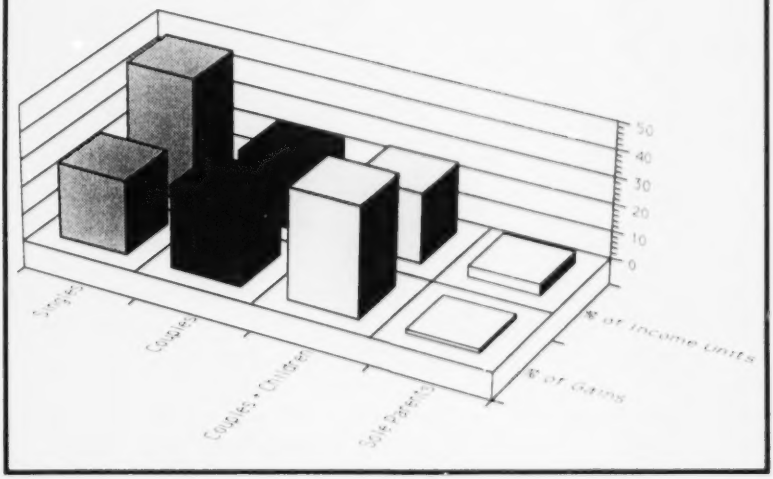
As discussed in Part Two, the Wage–Tax Package directs benefits to all taxpayers; its benefits are not confined to particular family types. The benefits accruing to any particular income unit type whether it be single persons or families with children will depend, therefore, on the distributions of the taxable incomes of each income unit type. Because of this, although the package does not contain specific family components, it may still assist families more than single persons, though most benefit will go to those on higher incomes. This issue is addressed in Table 1 (see also Figure 1).

The table shows that couples with dependent children who constitute 25.8 per cent of all income units would receive 40.7 per cent of the package. On the other hand, single persons who make up 46.2 per cent of all income units, would receive only 27.4 per cent of the total benefits of the package. On this result, although not specifically directed at families, the Wage–Tax Package could be described as a family-oriented package. On the other hand, the results for sole parents would imply the opposite conclusion. The average amount received by sole parents from the package is $168 per year compared to an average of $767 per year for couples with children. The lower average amounts received by single persons and sole parents reflects both the low incomes of these groups and the inability to obtain two tax cuts.

Table 1: **Percentage of the total benefits of Labor's Wage–Tax Package received by different income unit types and the average amounts per annum that would be received by each income unit type (June 1991 dollars).**

Income unit type	*Percentage of all income units* %	*Percentage of benefits received from package* %	*Average amount received per unit* $pa
Single persons	46.2	27.4	288
Couples, no children	24.0	30.5	617
Sole parents	4.0	1.4	168
Couples with children	25.8	40.7	767
Total	100.0	100.0	485

FIGURE 1: DISTRIBUTION OF GAINS FROM LABOR'S WAGES-TAX PACKAGE



Gains to one- and two-income families

The conclusion at the end of the previous sub-section implies that the Wage–Tax Package gives greater benefits to two-income families than to one-income families. This issue is addressed directly in Table 2. The table confirms that two-income couples receive higher benefits on average than one-income couples. Because one-income families have lower incomes in general, their gains are not as great. The difference is particularly noticeable among families with children where the two-income couple would receive an average increases in disposable income of $942 per annum compared to $548 for a one-income couple.

Table 2: Percentage of benefits for couple families going to one- and two-income couples and average amounts received per annum by one- and two-income couples (June 1991 dollars).

Couple type	*Percentage of all income units* %	*Percentage of benefits received from package* %	*Average amount received per unit* *$pa*
Couples, no children			
One-income	26.5	18.8	438
Two-income	73.5	81.2	681
Couples with children			
One-income	44.4	31.8	548
Two-income	55.6	68.2	942

Gains to families with children by income level

Table 3 shows that for families with children, the Wage–Tax Package provides little benefit to those on low incomes. Only one per cent of the benefits of the package go to the 18.2 per cent of families with incomes below half AWE (about $14 000 pa). At the other end of the income range, 54.3 per cent of the benefits for families with children go to families with incomes above 1.5 times AWE (about $42 000 pa). The 51.4 per cent of families with incomes ranging from half AWE to 1.5 AWE would gain 44.7 per cent of the benefits of the package.

These results clearly indicate that the greatest cash benefits from the Wage–Tax Package go to families and single persons on higher incomes. However, it should be noted that elements of the proposals are progressive in nature viz. the $12 flat wage increase and higher reductions in tax rates at lower levels of income. Most of the gain to high income families flows from the 7 per cent wage increase.

Table 3: Percentage of total gains going to families at different income levels and the total and average benefits received by families at different income levels, families with dependent children (June 1991 dollars).

Range of family income	*Percentage of all families with children* %	*Percentage of total benefits of package* %	*Annual dollar gains* *Total* *$m pa*	*Average* *$pa*
Less than 0.5 AWE	18.2	1.0	16.2	36
0.5 AWE to AWE	21.8	14.2	240.9	448
AWE to 1.5 AWE	29.6	30.5	516.2	708
1.5 AWE to 2 AWE	17.4	24.0	406.2	951
2 AWE to 4 AWE	11.6	22.8	384.8	1346
4 AWE and over	1.4	7.5	127.2	3609
All families	100.0	100.0	1691.5	687

Changes in Average Tax Rates

The February Economic Statement (Keating and Walsh 1990) states in respect of the proposed, new tax scales:

> 'One further key point that needs to be understood about the new tax structure is that taxpayers will continue to pay less tax than had the tax scale been indexed for inflation since 1983'.

The analysis in AFIT Bulletin No.6 of the impact of the Government's April 1989 Economic Statement showed that, following implementation of the measures contained in the Statement, *individuals* at almost all levels of income would be paying less tax than if the tax scales had been indexed between 1983–84 and 1989–90. However, the analysis also showed that average tax rates for *families* (incorporating Family Allowances, the Dependent Spouse Rebate and the Sole Parent Rebate) were still above 1983–84 levels for families with incomes around average weekly earnings.

Addressing this issue again, Table 4 sets out the average tax rates payable in 1983–84, 1989–90 and at June 1991 for different family types at different levels of income. Income levels are expressed as a multiple of average weekly earnings so that relative comparisons can be made across time. For an individual, the average tax rate measures the tax paid by that person as a proportion of his or her taxable income. For a family, the average tax rate measures the combined tax paid by the husband and wife (deducting amounts received in Family Allowances and Family Allowance Supplement) as a proportion of the combined taxable incomes of the couple.

Changes between 1983–84 and 1988–89

Average tax rates were lower in 1989–90 than in 1983–84 for all but two of the 28 categories of income units shown in the table, that is, in real terms, 26 out of the 28 categories are paying less tax in 1989–90 than they would have paid if the 1983–84 tax rates still applied. The two categories now paying more tax are one-income couples without children at AWE ($28 000) and one-income couples with children at AWE. This indicates that changes in the tax-transfer system between 1983–84 and 1989–90 have been least generous for one-income families with incomes around AWE. It must be pointed out, however, that the amounts of additional tax that were being paid by these two categories of people were small. For example, a one-income couple with two children on AWE is only paying about $5 per week more tax now than if 1983–84 rates were to be applying today. A one-income couple with no children would be paying $3 per week more.

The biggest drops in average tax rates apply to one-income families and individuals at very high income levels (4 AWE or about $112 000). One-income families and individuals at this income level pay more than $100 per week less tax than they would if 1983–84 rates still applied. On the other hand, it could be argued that persons at very high levels of income are much more likely to have been affected by the introduction of taxes on capital gains and fringe benefits, which are not included in our calculations.

For families with children at half AWE ($14 000), the table shows negative rates of tax. This means that these families receive an increase in

their income through the tax-transfer system which exceeds any income they pay. The level of this transfer has increased by about $26 per week during the term of the Labor Government primarily because of the introduction of the Family Allowance Supplement and increased levels of Family Allowances.

Overall, contrary to what is often claimed, most Australian family types and all individuals are paying, in real terms, less tax in 1989–90 than they would have paid in 1983–84.

Table 4: Average tax rates for individuals and families, 1983-84, 1989-90 and June 1991.

Level of family income	*1983–84* %	*1989–90* %	*June 1991* %	*1983–84* %	*1989–90* %	*June 1991* %
	Single persons			*One-income couples without children*		
0.5 AWE	15.5	13.3	13.5	6.8	6.1	6.4
AWE	22.8	22.6	22.7	18.4	19.0	19.1
1.5 AWE	30.3	29.4	29.5	27.4	27.0	27.1
2 AWE	35.1	33.9	33.8	32.9	32.1	32.0
4 AWE	47.5	40.9	40.4	46.4	40.0	39.5
	*One income couples with two children**			*Sole parents with two children**		
0.5 AWE	-14.7	-24.3	-24.2	-16.4	-29.3	-30.4
AWE	13.9	14.9	15.0	18.2	15.8	15.9
1.5 AWE	24.3	24.2	24.3	27.9	24.8	25.0
2 AWE	30.6	30.0	29.9	33.3	30.5	30.4
4 AWE	45.3	39.9	39.3	46.7	39.2	39.6
	*Two-income couples** without children**			*Two-income couples** with two children**		
AWE	15.5	13.3	13.5	12.1	9.8	10.1
1.5 AWE	20.4	18.3	18.5	18.0	16.0	16.2
2 AWE	24.2	22.6	22.8	22.4	20.9	21.0
4 AWE	36.0	33.9	33.8	35.2	33.9	33.8

* One child aged less than 13, one aged 13–15 years
** Income divided between spouses in the ratio 60:40.

Changes promised by June 1991

The changes to tax scales that are promised as part of the Labor Wage–Tax Package appear to have been designed to maintain the 1989–90 status quo. All categories in the table would have virtually the same average tax rates in June 1991 as they have in 1989–90. This confirms the Treasurer's statement as quoted above.

Changes in the Real Disposable Incomes of Families

Trends in real disposable income indicate the combined effects of changes in earnings, prices and taxes. In Australia, real disposable income peaked in 1984–85 following the wages break-out of the late 1970s and early 1980s.

Table 5: Changes in real disposable income, 1983–84 to 1989–90, 1989–90 to June 1991 and 1983–84 to June 1991 ($1989–90)

	1983–84 to 1989–90 $pw	*1989–90 to June 1991 $pw*	*1983–84 to June 1991 $pw*
Single taxpayer			
0.5 AWE	-6.27	1.64	-4.63
AWE	-21.71	3.84	-17.87
1.5 AWE	-23.16	4.77	-18.39
2 AWE	-25.13	8.02	-17.11
4 AWE	79.38	24.35	103.73
One-income couple with no children			
0.5 AWE	-11.54	1.64	-9.90
AWE	-26.97	3.84	-23.13
1.5 AWE	-28.43	4.77	-23.66
2 AWE	-30.40	8.02	-22.38
4 AWE	74.11	24.35	98.66
One-income couple with two children 5–12, 13–15			
0.5 AWE	9.08	2.92	12.00
AWE	-30.29	3.99	-26.30
1.5 AWE	-31.74	4.92	-26.82
2 AWE	-33.71	8.17	-25.54
4 AWE	52.50	24.35	76.85
Sole parent with two children, 5–12, 13–15			
0.5 AWE	17.54	6.39	23.93
AWE	-27.91	3.99	-23.92
1.5 AWE	-29.37	4.92	-24.45
2 AWE	-31.34	8.17	-23.17
4 AWE	58.87	24.35	79.22
Two-income couple without children			
AWE	-12.55	3.27	-9.28
1.5 AWE	-18.40	5.01	-13.39
2 AWE	-27.52	6.99	-20.53
4 AWE	-29.49	16.85	-12.64
Two-income couple with two children			
AWE	-13.81	3.42	-10.39
1.5 AWE	-19.66	5.16	-14.50
2 AWE	-28.78	7.14	-21.64
4 AWE	-49.05	16.85	-32.20

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Since that time, real wages have declined as a result of agreements between government and unions to 'tighten their belts' in the interests of the longer-term wellbeing of the Australian economy. Real average weekly earnings declined by $29.06 per week between 1983–84 and 1989–90. In 1989, an agreement was made to reduce taxation levels and to increase family payments in exchange for a further real decline in wages. Along with changes to the provision of child care as described in Part Two, the proposed 1990 agreement also includes a drop in rates of taxation, but, for the first time in several years, contains a rise in real wages. The following analysis (Table 5) shows the net effects of these changes on the real incomes of families and individuals from 1983–84 through to June 1991.

As would be expected given policies to reduce the level of real wages, the table shows that most of the 28 categories in the table experienced declines in real disposable income between 1983–84 and 1989–90. The exceptions are single taxpayers and one-income families on 4 AWE ($112 000 in 1989–90) who all experienced substantial rises in disposable income and couples with children and sole parents on half AWE for whom the increases were relatively small. However, with one exception, all the declines in real disposable income were less than the decline in real wages experienced by the particular category (at AWE, the decline in real wages was $29.06 per week; at 2 AWE, it was twice this amount and so on). The one exception is one-income couples with children at AWE for whom the decline in real disposable income was about one dollar more than their decline in real wages. This indicates, as already concluded in the previous sub-section, that changes in taxation arrangements, to a varying extent, offset declines in real wages during this period.

Assuming that the targets for wages and inflation in the Treasurer's February 1990 Economic Statement are met, all categories in the table will experience a rise in real disposable income between 1989–90 and June 1991. The rises become higher as income rises so that the wealthiest categories continue to do better than others. However, the wealthy would be more likely to be paying taxes on capital gains and fringe benefits.

Over the full period from 1983–84 to June 1991, the real incomes of middle income people, single persons as well as families will have fallen by about $20–25 per week. However, since 1983–84, among couple families with children, there has been a substantial shift from one-income to two-incomes per family. In July 1983, both partners were employed in 42 per cent of couple families with dependent children. By July 1989, this percentage had risen beyond 56 per cent. Thus 14 per cent of couple families with children have improved their household income circumstances during this period by increasing their employment.

Gains for Families with a Child in Child Care

Families would have the following gains from the Labor Party's tax and child care proposals once the new measures are in place. These gains do not include the proposed changes in wage rates. Child care benefits are based on the assumption that the family would qualify for fee relief of up to $100 per week.

Table 6: Weekly gains for families with one child from Labor's tax and child care fee proposals.

Family income per week	*Child not in subsidised care (tax gains only) $pw*	*Child in Government centre (additional to existing subsidy) $pw*	*Child in commercial centre (no existing subsidy) $pw*
Sole parent and one income couples			
$400	6.11	31.01	103.11
$500	7.11	39.01	94.11
$700	10.64	56.54	77.64
$900	12.64	59.64	59.64
$1200	13.23	30.23	30.23
$1600	13.23	13.23	13.23
Two-income families with one child			
$500	1.21	33.11	88.21
$700	7.52	53.42	74.52
$900	10.44	57.44	57.44
$1200	17.75	34.75	34.75
$1600	21.74	21.74	21.74

Part Four: Concluding Remarks

The Wages–Tax Package would deliver a one per cent rise in real wages for the workforce along with approximate indexation of the tax scales. Given that all the major family-related benefits in the tax system have already been indexed, the effect of the Labor proposals on wages and taxes is to provide a small improvement in real disposable income (around $4 to $5 per week for the average income unit). Thus the package essentially holds the line as far as family living standards are concerned between now and June 1991.

Overall, the initiatives relating to child care are probably the most significant aspect of Labor's proposals for the 1990 election. While the expansion of places is certainly a step of major significance, the extension of fee relief to middle-income families and to users of employer and commercial centres would probably count as more important in the longer term. Essentially, what would be in place would be the foundation of a comprehensive national child care system, embracing nearly all users and all providers of paid care. Nevertheless, the inclusion of the commercial sector will almost certainly prove to be problematic in both the short and longer terms. The task to produce an acceptable set of standards for accreditation will be critical to ensuring that all children in care receive an adequate early education.

Other initiatives in the areas of improving the social infrastructure of outer urban areas, the funding of more preventative services for families, and selected improvements in education are all important and modest in scope. Of these, the creation of the Education Completion Allowance is important as it recognises the extra costs of keeping children in secondary school and addresses an area of neglect of recent years. Increased funding for preventative services for families has strong support from the findings of Institute research.

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